



Real Estate Crowdfunding: The Ultimate Guide

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Real estate crowdfunding is an alternative source of funding for real estate projects. It pools relatively small amounts of money from multiple investors in order to finance a property or portfolio of properties. Investor funds are invested in either debt or equity in return for a proportional stake in a project.

How Real Estate Crowdfunding Works

Real estate crowdfunding lets you invest small amounts of money, sometimes as low as \$500, in either the equity or debt of a real estate project or portfolio. In return, you own a proportional stake in either the property/portfolio or its underlying mortgage and receive payments in the form of quarterly or monthly dividends.

There are typically two types of real estate crowdfunding investments:

- Equity crowdfunding – Dividends typically consist of rental income. Equity crowdfunding investors own a proportional share of a property or portfolio and earn income on rental profits as well as if/when a property is sold.
- Debt crowdfunding – Dividends consist of interest income earned off of a property or portfolio's mortgage payments. There is no additional income if/when a property is sold and investors don't own a proportional share of any property.

Real estate crowdfunding is done online and provides a great way for an investor to take advantage of a passive real estate investment. There are many crowdfunding sites that pool investor funds and use them to invest in either debt or equity for a small fee, generally around 1%-2%. Some of these sites allow accredited and non accredited investors to participate while others only allow accredited investors to invest.

Regardless, your investment will typically be for a predetermined amount of time with your principal repaid at the end. This isn't always the case, and losses can happen. Equity investments are typically longer (3-10 years) than debt investments, which last around 2 years. For example, if the investment is for 3 years, you will receive quarterly dividend payments each year, and any outstanding balance is repaid by the end of the 3-year period.

This makes real estate crowdfunding much different than the typical [crowdfunding](#) sites you're probably familiar with, like [Kickstarter](#).

Where to Find Real Estate Crowdfunding Opportunities

Real estate crowdfunding opportunities can be found on many different sites. All of them typically list their current projects and the amount of funding needed for each project. Some crowdfunding sites let you pick what and where you want to invest, while others diversify your investment across multiple projects, which may include commercial and residential real estate.

The top 5 real estate crowdfunding sites are:

1. Fundrise

Fundrise accepts accredited and non accredited investors with a minimum investment of \$500. Your investment is spread out across their portfolio, which typically consists of multifamily developments, office buildings, new construction homes, acquisition loans and construction loans. Your fees vary based on your investment but are generally 0.15% to 1% per year.

2. RealtyMogul

RealtyMogul lets accredited and non accredited investors choose to invest in a specific property or diversify across multiple properties with a minimum investment of \$1,000. Their investments include real estate loans, shopping centers, [self storage facilities](#) and apartment buildings. Your fees are usually from 0.30% – 0.50% annually.

3. RealtyShares

RealtyShares is only open to accredited investors and it lets investors choose what property to invest in with a minimum investment of \$5,000. Their properties are small residential buildings (including single family homes) and some commercial properties. You can choose to invest in equity or debt and their fees are 1% on equity and up to a 2% interest rate spread on debt.

4. RealCrowd

RealCrowd is only open to accredited investors and they let you choose what project to invest in with a minimum investment of \$25,000. They're a middleman that connects investors and real estate investment companies. They offer access to commercial real estate equity investments from the top real estate firms. These offerings include office, multifamily, and retail properties.

5. CrowdStreet

CrowdStreet is open to accredited investors who want to invest in commercial real estate projects such as apartment complexes. The minimum investment is \$10,000. They have a small pool of investors compared to other sites and have a strict vetting process for each project. They don't directly charge fees but each fund they work with has their own underlying fees.

For more information on where to find real estate crowdfunding opportunities and the minimum investments needed, check out our article on the best real estate crowdfunding sites.

Types of Real Estate Crowdfunding Investments

The two common types of real estate crowdfunding investments are equity investments and debt investments. With equity investments, you're either investing in the project or a portfolio of projects while with debt investments you're investing in a mortgage or group of mortgages. Equity investments are usually longer term investments that offer higher returns and are more common.



The 2 types of real estate crowdfunding investments include:

1. Crowdfunding Equity Investments

Equity investments offer investors a passive, indirect ownership position, which means they're a long term investor and receive a return on their investment from property appreciation and rental income. The investor is a shareholder in a specific property or a portfolio of properties, and in return for their investment, they receive a proportionate number of shares.

Equity investments generally earn returns through:

- Rental income
- Asset price appreciation

Since the projects are usually either new developments or need extensive renovations, the investments are for longer time periods, generally 3 – 10 years. Investors are generally paid through quarterly cash flow distributions where the investor receives a return on their investment through a proportional share of the rental income the property generates. Since the properties are professionally managed, you don't have to do anything but invest your money and sit back.

The other (although less common) way equity investors receive a return on their money is through asset price appreciation when the property is sold. These equity investors will also get certain tax advantages – such as depreciation deductions – that real estate debt crowdfunding investors don't receive.

There are two types of equity investments. The first is common equity investments while the second is preferred equity investments. Some crowdfunding sites only offer one type of investment. Still, we will show the benefits and drawbacks of both in the table below and discuss each component in detail.

Common Equity vs. Preferred Equity Crowdfunding Investments

	Common Equity	Preferred Equity
Repayment	Paid back last	Paid back after mortgage debt but before common equity
Return on Investment	Up to 10%-25%, fixed or floating rate with an agreed upon portion of equity	Up to 10%-13%, fixed return rate just for preferred investors
Secured By	Usually directly secured by the equity in the property	Usually indirectly secured by equity in the property
Risk Level	The riskiest type of crowdfunding investment	Less risky than common equity but riskier than mortgage debt

Common Equity Crowdfunding Investments

Common equity is where you buy into the actual project being developed and receive a percentage ownership of that project. Platforms give investors proportional rental profits, either monthly or quarterly. What's more, if the project appreciates in value, you receive a portion of it once the property is sold.

However, it's considered the riskiest type of real estate crowdfunding investment. This is because common equity investors are repaid last, and if the property doesn't appreciate as planned or doesn't generate enough cash flow, you can lose your investment. However, the potential for a high ROI is the greatest, since common equity investing doesn't have a cap on its return like preferred equity does.

Preferred Equity Crowdfunding Investments

Preferred equity is kind of in between common equity and debt crowdfunding in terms of risk and the order of repayment. It's not as risky as common equity but not as safe as loans. Preferred equity investments generally pay

out fixed returns based on rental income. Like debt investors, preferred equity investors usually receive monthly payments, but similar to common equity, they can take advantage of tax deductions.

However, returns are typically fixed for preferred equity investments, giving them less of an upside than with common equity investments. Still, they're paid back before common equity investors and therefore isn't as risky.

Regardless of the specific type, the pros and cons of equity investing include:

Pros:

- Higher returns on your investment when compared to debt investing.
- Since most equity deals are set up as an LLC, so you receive depreciation deductions similar to if you owned an investment property.
- Lower fees than investing in debt; annual fees are usually 1 – 2%.

Cons:

- Higher risks since equity investors are second in line to be paid back after loan investors.
- The risk of the property not performing and not getting your money back since you're investing in the equity, not the debt, so you can't receive proceeds through a [foreclosure](#).
- Your money is held up for a longer time period, so limited liquidity, most hold times range from 3 – 10 years

2. Crowdfunding Debt Investments

Crowdfunding projects are usually funded with one or more loans, and these loans can be partially funded from your investment. In return, you receive income in the form of an interest rate spread. Essentially, your funds are being borrowed by the real estate developer with the intention of paying you back plus interest once the loan matures.

The loan that you invest in is secured by the property being built. The typical investment term is 6 months – 2 years and the average return is [8.5 – 9.1%](#). As with all crowdfunding investments, you don't choose when to exit the investment and get your money back. The exact timeline will be set in a signed agreement up front.

Debt investments are generally categorized as syndicated debt or platform issued debt. Some crowdfunding sites only offer one type of debt, but we will show the basics of both in the table below including a detailed breakdown of each.

Syndicated Debt vs Platform Issued Debt Crowdfunding Investments

	Syndicated Debt	Platform Issued Debt
Repayment	Debt investors are repaid before equity investors	Debt investors are repaid before equity investors
Return on Investment	8 - 12%, typically fixed	0.5 - 1% higher than syndicated debt, typically fixed

Secured By	The underlying property or portfolio of properties	The underlying property or portfolio of properties
Risk Level	Less risky than equity debt	Less risky than equity debt

Syndicated Debt Crowdfunding

Investors who invest in debt syndication are investing in a portion of an existing real estate loan that was originated by professional lenders (considered the middlemen). These middlemen provide extra security on the loan since they diligently research it before approving it, but they also add to the fees. Debt syndication fees average 0.5% – 1.5% annually.

Investors receive fixed payments that usually offer 8% – 12 % returns. The debt is secured by the property, so it's less risky than an equity investment. Terms are generally short, typically less than two years, which offers investors faster liquidity.

Platform Issued Debt

Investors that invest in platform issued debt are investing in loans originated by the real estate crowdfunding site itself using investor funds. This means that investors' returns are usually 0.5 – 1% higher than with syndicated debt. Most of these loans are [fix and flip loans](#) and the annual fees are 0.5 -1.5%. The typical investment is for 6 months to two years.

Regardless of the specific type, the pros and cons of crowdfunding real estate loans include:

Pros:

- A shorter timeline so you generally receive your money back within 6 months – 2 years.
- Your money isn't tied up for a long period of time so you can invest in other projects.
- Less risk than investing in equity because if the developer defaults, the investors can recoup their loss through a foreclosure.
- Predictable payments usually paid monthly or quarterly, and the amounts are usually forecasted ahead of time.

Cons:

- Typically higher fees for using the crowdfunding platform.
- Lower return on investment than investing in equity; investments are generally capped by the interest rate on the loan.

Who Real Estate Crowdfunding is Right For

Real estate crowdfunding is right for passive investors who want access to real estate investments that they couldn't afford or wouldn't have access to on their own. It can also be right for investors who want to increase their exposure to debt.

Real estate crowdfunding is right for the following:

- Investors who don't have enough capital to purchase a property outright but still want to invest in the real estate market.
- Individuals looking for an alternative to investing in a [REIT](#) or in the stock market since it gives them access to properties otherwise unattainable.
- Investors who don't want the headaches of being a landlord and who don't want to do any work themselves.
- Individuals who want to invest in real estate outside of their own location, but otherwise wouldn't have the means or logistics to do so.

Real estate crowdfunding isn't right for you if you want to own the asset outright. It's also not right for you if you want to be a hands on investor and choose finishes and be in charge of deadlines, budgeting, and managing contractors. Investing in real estate crowdfunding is a much more passive investment.

If real estate crowdfunding isn't for you because you're interested in investing in real estate and want to be actively involved, consider purchasing a foreclosed property and fix it up and rent it. Check out our article on [how to become a landlord](#) for more information.

Accredited vs Non Accredited Real Estate Investors

Real estate crowdfunding sites cater to either accredited or non accredited investors. This will determine which sites you qualify to invest in. The Securities & Exchange Commission (SEC) determines the eligibility qualifications of accredited investors.

You're considered an accredited investor if you meet one of the following three criteria:

- Individual income of \$200,000+ or joint income of \$300,000+ for the past 2 years
- Individual or joint net worth of \$1 million+, excluding the value of a primary residence
- General partner, director, or executive officer for the issuer of non regulated securities

You're considered a non accredited investor if you don't meet the financial qualifications of an accredited investor mentioned above. It's important to know the difference between accredited and non accredited investors because some real estate crowdfunding sites allow both types of investors to invest, while others allow only accredited investors to invest.

History on Accredited and Non Accredited Investors

In 2012, the concept of real estate crowdfunding was growing and the Jumpstart Our Business Startups ([JOBS](#)) Act was passed. Under Regulation D, the door was opened for solicitation and direct marketing towards accredited investors for real estate crowdfunding. This allowed real estate developers to solicit funds from high net worth, accredited, individuals on crowdfunding sites.

In 2016, Title III of the JOBS act opened the market even further and allowed non accredited investors to also invest in these equity crowdfunding platforms. However, there are some [regulations](#) based on your income and some companies still only accept accredited investors.

Real Estate Crowdfunding Pros and Cons

Real estate crowdfunding can provide an opportunity for investors to diversify their investments and reduce their risk while earning good returns on their investment. It allows investors to be a part of deals that were previously unattainable to them. However, it does have its own set of risks, such as if your project goes under and you lose your investment.

The pros and cons of real estate crowdfunding include:

Pros:

- Possibility to invest in a real estate project you couldn't otherwise afford, such as a highrise building or an apartment complex.
- Diversify your investment portfolio with investments outside of stocks or bonds.
- Invest in rapidly growing metropolitan areas outside of your geographic area.

Jeff Miller, co-founder, [AE Home Group](#) says that, "Real estate crowdfunding fills a financing gap between conventional and hard-money loans. It's more flexible than conventional loans but frequently offers better terms than a hard-money loan. The benefit to financiers is the diversification of risk. You're not required to fund an entire deal in order to make an investment. This allows you to spread the same amount of money over a number of projects. You also gain the benefit of others being involved in the financing, adding additional scrutiny to the project."



Cons:

- The potential that your returns won't be as high as expected.
- You may end up losing your investment since most real estate crowdfunding investments are unsecured.
- Due diligence limitations since an investor may not live in the area of the investment and may not be familiar with what they're investing in.
- Lack of understanding because an investor may not be clear on what they're investing in and how the deal is structured.

Ralph DiBugnara, Vice President of Retail Sales, [Residential Home Funding](#) says that, "Real estate crowdfunding is very new and untested, so we don't have a lot of real estate crowdfunding statistics,

and it will be a while before investors can really analyze long term return figures. Many of these funds also require you to hold the investment for as much to five years or until the property is sold. So, if you want to get out you either won't be able to or will pay a penalty, making liquidity an issue."



Real Estate Crowdfunding Trends

Real estate crowdfunding has grown exponentially since 2012 and is disrupting the real estate market in terms of raising capital. In 2015, over [\\$34.4 billion was raised](#) by individuals on crowdfunding platforms. While real estate crowdfunding statistics aren't that plentiful since it's a fairly new concept, the trends say that it will continue growing.

Real estate crowdfunding returns vary depending on the investment and the timeframe it takes to fund and build the project. Returns generally range from 5 -25%, and most companies project net returns of [10%](#) or more. They're usually paid back monthly or quarterly with the principal being paid back within a specified time period. Keep in mind, that these returns are projected and aren't guaranteed.

Some upcoming real estate crowdfunding trends include millennials using it to diversify their investments. It's also starting to be used by retirees as an alternative way to invest their retirement savings. A new trend forecasts that real estate crowdfunding apps will start to gain popularity, similar to the crowdfunding apps like [GoFundMe](#), but to invest in real estate.

Now, there are even real estate crowdfunding sites for homebuyers, not just investors. One such site is [HomeFundMe](#) and they let future home buyers raise money for their dream home on a crowdfunding site. They can share photos and their story, and broadcast it across social media sites for their network to donate to.

Bottom Line

Real estate crowdfunding allows investors to diversify their investment portfolio by investing in projects that they otherwise wouldn't be able to afford. It also gives borrowers access to more capital in a shorter time frame. Although rewards can be lucrative, it's a fairly new concept and there are risks involved, so it's important to do your research.
